

ENC 3



Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

To Board of Directors and Management
Orange County Fire Authority
Irvine, California

In planning and performing our audit of the financial statements of the Orange County Fire Authority ("OCFA") as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the OCFA's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OCFA's internal control. Accordingly, we do not express an opinion on the effectiveness of the OCFA's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the OCFA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the OCFA's financial statements that is more than inconsequential will not be prevented or detected by the OCFA's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. **We noted no matters that we consider to be material weaknesses in internal control.**

However, our understanding of the OCFA's internal control that we obtained during the performance of our audit testing gave us the opportunity to communicate the following best practices for consideration by the OCFA:

(1) Best Practices

We evaluated the OCFA's conformance to the best practices recommended by the Auditing Standards Board as a part of the new auditing standards that take effect for 2008 audits. Because of the OCFA's strong commitment to excellence, the OCFA already has in place a number of these recommended practices. Some of the best practices that are already in place or are in the process of being implemented are as follows:

- The OCFA has a document called "The Orange County Fire Way" that identifies the OCFA's organizational values – teamwork, integrity, trust, excellence, ethics, personal responsibility, care and respect, honesty and fairness, reliability and diversity. This document is provided to all employees upon orientation.

Mgt. Ltr.
11/20/09

To Board of Directors and Management
Orange County Fire Authority
Page 2

- The OCFA is in the process of setting up a hotline for employees, vendors and members of the public to report concerns about potential fraud or ethical violations. Implementation of the hotline is scheduled to begin on October 1st. Employees will be provided information and training as to use of the hotline.
- The OCFA has begun internal assessments of accounting error and fraud risk on an annual basis for its various transaction cycles. As a reflection of the OCFA's commitment to internal control, the OCFA has historically engaged CPA firms other than its independent auditor to provide a more intensive evaluation of internal control than is provided for in the annual audit of its financial statements.
- The Fire Chief sends a weekly message to update all employees regarding major OCFA initiatives. The Fire Chief uses that process to periodically re-emphasize the OCFA's commitment to excellence and ethical values.

(2) Independent Review of Vendor Change Report

The individuals who perform data entry for cash disbursements have the ability to add vendors and to make changes to vendor information data established in the system. Although this is largely mitigated by the numerous controls associated with the OCFA's cash disbursement process, we recommend the process described below as an additional layer of internal control.

Recommendation:

We recommend that the OCFA produce a system report that lists all vendor changes and modifications by employee. This report should be provided to the Accounts Payable Manager or the Finance Manager/Auditor for review on a periodic basis.

(3) Independent Review of Printed Checks to Support

The individuals who perform data entry of invoices (Accounting Support Specialist and Senior Accounting Support Specialists) in Accounts Payable obtain the final check register and match the names and amounts on the final check register to related supporting documents (vendor invoice, etc.). This is an important internal control procedure. In certain cases, some of the transactions subjected to this control were initially processed by the same person who later performed this review function. This control is more effective when the review is performed in a manner such that the reviewer is not reviewing his or her own work.

Recommendation:

We recommend that the final check register be divided and distributed to the Accounting Support Specialist and Senior Accounting Support Specialists so that they are not verifying their own input. The summary page ("Trial Balance") that lists the totals by individual should agree to the total of the divided reports. This Trial Balance should be

To Board of Directors and Management
Orange County Fire Authority
Page 3

reviewed by the Accounts Payable Manager or Accountant to enforce the integrity of this control. We understand that the OCFA has already implemented this recommendation.

This communication is intended solely for the information and use of management, Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Manager Hoffman McLaughlin

Irvine, California
October 17, 2008